



June 18, 2013

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Re: H.R. 1564, the Audit Integrity and Job Protection Act

Dear Chairman Hensarling and Ranking Member Waters:

We are writing on behalf of the Investment Company Institute¹ (ICI) and the Independent Directors Council² (IDC) to express our support for H.R. 1564, the Audit Integrity and Job Protection Act, which is scheduled for consideration by the Financial Services Committee. ICI and IDC appreciate the Committee's work on this legislation that prohibits the Public Company Accounting Oversight Board (PCAOB) from requiring public companies to use different auditors on a rotating basis – a proposed practice commonly known as mandatory audit firm rotation.

We firmly believe, and history has shown, that existing safeguards are more than adequate to assure the independence of auditors. Funds have long had strong systems of controls and procedures in place to protect investors and ensure the integrity of financial statements, as required by law. The Sarbanes-Oxley Act bolstered these protections in 2003 by requiring a number of new regulations designed to strengthen auditor independence. Most notably, the rules require lead audit partners and concurring review partners to rotate on a regular basis, which promotes both independence and quality in the audit process.

¹ The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$15.2 trillion and serve more than 90 million shareholders.

² The IDC serves the fund independent director community by advancing the education, communication, and policy positions of fund independent directors, and promoting public understanding of their role. IDC's activities are led by a Governing Council of independent directors of ICI-member funds. There are almost 1,900 independent directors of ICI-member funds. The views expressed by IDC in this letter do not purport to reflect the views of all fund independent directors.

Mandating audit firm rotation would impose unnecessary burdens on fund boards and fund managers, diminish the quality of audits, enhance the risk that problems may be associated with the audit, and increase audit costs. Funds can and do change audit firms under circumstances appropriate for the particular fund, but replacing one of a fund's principal service providers is a significant undertaking. A new audit firm's initial review, as well as the transition process, is disruptive, time-consuming and costly. In addition, a new audit firm's lack of familiarity with a fund could increase the risk of problems with the audit.

Our concerns about a mandatory audit firm rotation are heightened in the fund context due to the limited number of audit firms that are qualified – in terms of expertise and independence – to audit funds. If funds are forced to rotate audit firms and engage a firm that does not have sufficient experience and expertise in auditing fund financial statements, the impact on audit quality, risk, and cost would be that much more severe, to the detriment of fund shareholders.

Finally, a mandatory audit firm rotation requirement would inappropriately marginalize the role of fund boards and their audit committees. Determining whether to retain the fund's current auditor and, if not, the most appropriate time to replace the auditor, is a decision best left to the judgment of a fund's independent directors, taking into account the particular facts and circumstances of the fund.

We commend the bill sponsors, Congressmen Robert Hurt and Gregory Meeks, for introducing H.R. 1564 and look forward to working with the Committee to pass this important legislation.

Thank you for considering our views.

Sincerely,



Paul Schott Stevens
President & CEO
Investment Company Institute



Amy Lancellotta
Managing Director
Independent Directors Council

cc: Members of the House Committee on Financial Services